

→ What Is Supply and Demand? - Answers & Explanations →

Much of the nation's economy is based on millions of people buying goods and services while millions of others are selling goods and services. What is bought and sold is determined largely by supply and demand. Supply refers to the goods and services businesspeople make available for others to buy and use. Yet for goods and services to be considered "supply," the business must be both willing and able to sell them.

For example School Days Supply Store received a large shipment of 10,000 pencils in March. The store's manager decided he would put 2,000 of the pencils on the shelf to sell, holding back some of his stock for the back-to-school shopping rush in the summer. This means the supply of pencils at the store is only 2,000; though the store may have been able to sell more, it was not willing to do so.

Demand on the other hand, is the desire, willingness, and ability of people to purchase goods and services. For example, Margaret wanted to buy an MP3 player that cost \$125 at Bargain Electronics. She received a holiday bonus from her job so she had the money. However, on her way to the electronics store, she saw a leather jacket in a clothing store window and bought that instead. Therefore, Margaret did not truly demand the MP3 player. She had the desire and ability, but not the willingness to buy it, since she bought something else instead.

When economists look at and study supply, they don't just take into account one store like School Days Supply. They consider all the businesses that offer certain types of goods as a group, such as electronics, oil, or clothing. Likewise, when studying demand, economists study groups of people and the buying trends for each, such as elderly people, teenagers or middle-aged men.

Based on information from the passage, write your own definitions for the terms:

supply - **Answers should reflect an understanding of the concept.**

demand - **Answers should reflect an understanding of the concept.**

Which definition **BEST FITS** the use of the word "stock" in the second paragraph?

- A. supply merchandise to a business to sell in a store
- B. the total amount of merchandise a store owner has *
- C. the trunk or main stem of a tree or other type of plant
- D. shares owned by people who invest money in a business

(When substituting each phrase into the sentence, only Choice B makes sense.)

Which situation **DOES NOT** properly reflect what supply is?

- A. "Diego's Discount Deals carries last year's models for less!"
- B. "Come to Wally's For All Your Back to School Shopping Today!"
- C. "Don't wait for the holidays! We have everything on sale now!"
- D. "Coming in January: The Newest Luxury Sports Utility Vehicles!" *

(Choices A, B and C all represent a seller with goods available for sale. Choice D has no supply since the vehicles are not yet available.)

Which situation is an example of **DEMAND** for a product?

- A. Mary needed to save only \$50 more to buy her new laptop.
- B. John decided to wait until spring to trade in for the new car.
- C. Roberta didn't like the way the latest design of jeans fit her.
- D. Markus waited until he saw a sale to buy his new video game. *

(In Choice A Mary lacks the ability to pay; B shows no willingness to buy until a later date; and C lacks desire for the product. Only Markus in Choice D has the desire, willingness, and ability to purchase, thus a demand.)

A Case Study

DIRECTIONS: Ford Mustangs have been popular in America since the 1960's. Throughout the car's history, however, the demand for and supply of the vehicle has changed as a result of many factors. Study the list of factors and for each, determine whether it will affect supply or demand, and the direction it will go. Then explain your ideas. (An example is provided for you.)

FACTOR	WHAT IS AFFECTED?	HOW	EXPLANATION
Mustangs have become very popular in the last two years.	Demand	↑	Consumer tastes and preferences have changed in favor of the Mustang.
Three new Mustang dealerships have opened in town.			
Nearly 10% of town residents have recently been laid off from their jobs.			
The price of the Dodge Challenger has gone down dramatically.			
Ford engineers improved the manufacturing process in their plants.			
The number of 18-45 year-olds has dramatically increased.			
Gas prices have doubled in recent months.			
The cost of steel has tripled in the last year.			
Ford decides a year's model will be the last Mustang it will produce.			
Economists predict that the price of sports cars will go down.			
Your Example:			
Your Example:			

A Case Study Suggestions for Answers

FACTOR	WHAT IS AFFECTED?	HOW	EXPLANATION
Mustangs have become very popular in the last two years.	Demand	↑	Consumer tastes and preferences changed in favor of the Mustang.
Three new Mustang dealerships have opened in town.	Supply	↑	A change in the number of sellers results in more supply.
Nearly 10% of town residents have recently been laid off from their jobs.	Demand	↓	People have less income to spend, so demand will go down.
The price of the Dodge Challenger has gone down dramatically.	Demand	↓	This represents a substitute good. Since the price of Challengers has gone down, the demand for Mustangs will also go down.
Ford engineers improved the manufacturing process in their plants.	Supply	↑	A change in technology makes the production of Mustangs cheaper so supply will go up.
The number of 18-45 year olds has dramatically increased.	Demand	↑	There are more consumers available for the Mustang, so demand will go up.
Gas prices have doubled in recent months.	Demand	↓	Gasoline is a complement item; since its' price has risen, the demand for cars will go down.
The cost of steel has tripled in the last year.	Supply	↓	Steel is used to make Mustangs. As the cost of the resource goes up, the cars will be more expensive to produce.
Ford decides a year's model will be the last Mustang it will produce.	Demand	↑	Since people who want this vehicle will not have another opportunity to buy one in the future, they'll want to buy it now, which will increase demand.
Economists predict that the price of sports cars will go down.	Supply	↓	Sellers will not produce as many vehicles if they think they will not make as much money.
Your Example:	Answers will vary.	Answers will vary.	Explanation should be well-reasoned.
Your Example:	Answers will vary.	Answers will vary.	Explanation should be well-reasoned.